

STATE OF ALABAMA
ALABAMA SECURITIES COMMISSION

In the matter of

THOMAS WEISEL PARTNERS, LLC

Respondent.

ADMINISTRATIVE ORDER
No. CO-2005-0008

WHEREAS, Thomas Weisel Partners, LLC ("TWP") is a broker-dealer registered in the State of Alabama; and

WHEREAS, coordinated investigations (the "Investigations") into TWP's activities in connection with certain conflicts of interest that research analysts were subject to during the period of approximately July 1999 through 2001 have been conducted by a multi-state task force and a joint task force of the U.S. Securities and Exchange Commission ("SEC"), the New York Stock Exchange ("Exchange"), and the National Association of Securities Dealers ("NASD") (collectively, the "regulators"); and

WHEREAS, TWP has cooperated with regulators conducting the investigation by responding to inquiries, providing documentary evidence and other materials, and providing regulators with access to facts relating to the investigations; and

WHEREAS, TWP has advised regulators of its agreement to resolve the issues raised in the investigations relating to its research practices; and

WHEREAS, TWP agrees to implement certain changes with respect to its research practices to achieve compliance with all regulations and any undertakings set forth or incorporated herein governing research analysts, and to make certain payments; and

1
2 WHEREAS, TWP, through its execution of this Consent Order, elects to permanently
3 waive any right to a hearing and appeal under Title 8, Chapter 6, Code of Alabama 1975
4 with respect to this Administrative Consent Order (the "Order");
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6 NOW, THEREFORE, the Alabama Securities Commission, as administrator of the
7 Alabama Securities Act, hereby enters this Order:
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9 **I. JURISDICTION/CONSENT**

10 TWP admits the jurisdiction of the Alabama Securities Commission, neither admits
11 nor denies the Findings of Fact and Conclusions of Law contained in this Order, and
12 consents to the entry of this Order by the Alabama Securities Commission.
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14 **II. FINDINGS OF FACT**

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16 **A. Background and Jurisdiction**

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18 1. Thomas Weisel Partners, LLC is a Delaware limited liability company with its
19 headquarters and principal executive offices in San Francisco, California. TWP was
20 formed as Portsmouth Capital LLC in September 1998, and changed its name to
21 Thomas Weisel Partners LLC in February 1999.
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23 2. TWP is registered with the Securities and Exchange Commission ("Commission"), is
24 a member of the New York Stock Exchange, Inc. ("Exchange") and the NASD Inc.
25 ("NASD") and is licensed to conduct securities business on a nationwide basis.
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27 3. TWP describes itself as a "merchant bank providing investment banking, institutional
28 brokerage, private client services, private equity and asset management exclusively

1 focused on the growth sectors of the economy." TWP provides a comprehensive
2 range of advisory, financial, securities research, and investment services to corporate
3 and private clients. TWP also provides investment banking services to corporate
4 clients.

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6 4. TWP is currently registered with the Alabama Securities Commission as a broker-
7 dealer, and has been so registered since January 24, 1999.

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9 5. This action concerns the time period of July 1999 through 2001 (the "relevant
10 period"). During that time, TWP engaged in both research and investment banking
11 ("IB") activities.

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13 **B. Overview**

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15 6. During the relevant period, TWP employed research analysts who provided research
16 coverage of the issuers of publicly traded securities. TWP's equity research analysts
17 collected financial and other information about a company and its industry, analyzed
18 that information, and developed recommendations and ratings regarding a
19 company's securities. TWP distributed its research product directly to its own client
20 base. TWP's research was also distributed through subscription services such as
21 Thomson Financial/First Call, Multex.com, Inc., and Zacks Investment Research
22 (collectively referred to as "Public Services").

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24 7. From February 1999 to June 1999, TWP maintained a 4-tiered ratings system:
25 Strong Buy, Buy, Watch List, and Sell. In June of 1999, TWP renamed the Sell rating
26 to Underperform. In August 1999, TWP renamed the Watch List rating to Market
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1 Perform so that its 4-tiered ratings system was: Strong Buy, Buy, Market Perform,
2 and Underperform. That rating system remained intact until November 2001.

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5 8. TWP ratings were heavily skewed towards "Buy" and "Strong Buy." For example, as
6 of April 13, 2000, TWP covered approximately 230 stocks with 89% being rated
7 either "Buy" or "Strong Buy" (42% were rated "Strong Buy" and 47% were rated
8 "Buy"). In contrast, there was only 1 stock rated "Underperform." As of January 18,
9 2001, TWP covered approximately 268 stocks, with 80% being rated either "Buy" or
10 "Strong Buy" (31% were rated "Strong Buy" and 49% were rated "Buy"), but none
11 rated "Underperform."

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14 9. As set forth below, written presentations prepared in connection with pitches for initial
15 public offerings ("IPOs") often touted TWP's favorable coverage of other issuers and
16 included research coverage as one of a number of services that TWP would provide
17 in "aftermarket" support of an issuer's stock.
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20 10. Research analysts participated in the pitch process for IPOs, secondary offerings and
21 merger and acquisition work that TWP sought to perform on behalf of publicly-traded
22 clients and potential clients. The analysts involved in the pitch process sometimes
23 included the same analysts who were providing or had provided research coverage
24 of the client or potential clients from whom TWP was seeking investment banking
25 business. In written presentations prepared in connection with these pitches, TWP
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1 touted the past research "support" it had provided to its client or potential client, and
2 included charts that tracked its coverage and ratings, and the issuer's stock price.
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5 11. TWP analysts considered prospective investment banking business in determining
6 whether to initiate or to continue to provide research coverage for issuers. TWP's
7 investment bankers participated in the evaluation of TWP research analysts, and a
8 portion of the TWP analysts' compensation was tied to the analysts' success in
9 helping TWP generate investment-banking business. TWP failed to disclose any of
10 these facts to its brokerage clients or to the general public.
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13 12. TWP received at least one payment from another broker-dealer as consideration for
14 TWP's research coverage of a security. TWP failed to disclose the payment or the
15 amount thereof to its brokerage clients or to the general public.
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17 13. On occasion, TWP paid other broker-dealers to initiate or to maintain research
18 coverage with respect to issuers for which TWP acted as an underwriter. The broker-
19 dealers that TWP paid to initiate or to maintain research coverage did not disclose
20 that they had received consideration for their research coverage of the securities.
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1 C. TWP'S RESEARCH STRUCTURE CREATED CONFLICTS OF INTEREST FOR
2 RESEARCH ANALYSTS
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4 Research Analyst Compensation Tied to Investment Banking Revenue
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6 14. TWP tracked investment banking revenue attributable to research analysts. TWP
7 also tracked to research analysts the brokerage revenue generated from stocks that
8 the analysts covered. During the relevant period, the amount of fees TWP generated
9 from investment banking deals attributed to an analyst accounted for at least five
10 percent of that analyst's overall compensation. Additionally, TWP used the
11 brokerage commission revenue generated in the stocks covered by TWP analysts as
12 a factor in determining analysts' total compensation.
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16 15. During the relevant period, TWP compensated its research analysts both directly and
17 indirectly on the amount of investment banking revenue they helped to generate.
18 Research analysts thus faced a conflict of interest between the incentive to help win
19 investment banking deals for TWP while being under an obligation to conduct and
20 publish objective research regarding those companies.
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22 TWP's Investment Bankers Evaluated TWP's Research Analysts and Helped
23 Determine the Compensation They Received
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25 16. During the relevant period, TWP organized research analysts and investment
26 bankers into "Tiger Teams" along industry groups such as telecommunications and
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1 software. Tiger Teams coordinated the efforts of research and investment banking to
2 identify new business opportunities.

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5 17. TWP investment bankers who worked with a TWP research analyst on investment
6 banking deals evaluated the research analyst's performance as part of an annual
7 performance evaluation. That evaluation was considered in setting the analyst's
8 compensation. This input from investment bankers further indicated to research
9 analysts the importance of satisfying the needs of investment bankers and their
10 clients and significantly hampered the independence of research reports that the
11 analysts issued.
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14 **TWP Research Analysts Played Important Roles in "Pitches" To Win**
15 **Investment Banking Business, Promised Research Coverage for IPO**
16 **Clients, and Provided Coverage Immediately Following the Quiet Periods**
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- 18 18. During the relevant period, research analysts played a pivotal role in winning
19 investment banking business for TWP. Once TWP's investment banking department
20 decided to compete for a company's investment banking business, particularly for an
21 IPO, research analysts played a critical role in obtaining that business.
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24 19. One of a research analyst's significant responsibilities was to assist in TWP's sales
25 "pitch" where TWP explained to a company or an issuer why it should select TWP to
26 be the lead managing underwriter for the offering or to be a member of an
27 underwriting syndicate. According to TWP's October 2000 equity research job
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1 descriptions, vice president-level analysts' duties and responsibilities included
2 "developing the ability to pitch and win corporate finance mandates." The job
3 description summary further stated that vice presidents "are building industry-wide
4 relationships that the Firm will monetize via a variety of brokerage and capital market
5 products."
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8 20. The summary of TWP principal-level analysts' job description stated that they "have
9 built industry-wide relationships that the Firm can monetize via a variety of capital
10 markets products." TWP principal-level analysts' duties and responsibilities included:

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12 Develop[ing] a Research Franchise that generates \$10-\$15 MM+ of
13 average annual revenues from multiple revenue streams
14 (Brokerage, CF, M&A, Private Equity) . . . [and] position[ing] the
Firm to pitch and win corporate finance mandates.

- 15 21. The summary of TWP partner-level analysts' job description stated as well that they
16 "have built industry-wide relationships that the Firm can monetize via a variety of
17 capital markets products." TWP partner-level analysts' duties and responsibilities
18 included:
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20 Continually develop[ing] and maintain[ing] a Research Franchise
21 that generates \$20-\$30 MM of average annual revenues from
22 multiple revenue streams (Brokerage, Corporate Finance, M&A,
23 Private Equity) . . . [and] position[ing] the Firm to pitch and win
corporate finance mandates including lead managed transactions.

- 24 22. In advocating retention of TWP, research analysts provided material regarding their
25 research to be included in the pitch books presented to the company or issuer. They
26 also routinely appeared with investment bankers at the pitches to help sell TWP
27 services to the potential client. TWP pitch books to potential clients included
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1 representations about the role the research analyst would play if TWP obtained the
2 business. In describing the "Role of Research," the pitch book also provided a
3 roadmap for the amount and type of coverage that the research department would
4 provide. Examples of analysts' participation in the "pitch" process are described
5 below.
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7 Loudcloud

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- 10 23. Loudcloud, Inc., now known as Opsware, is a company that provides business
11 internet infrastructure services. TWP participated as a member of the underwriting
12 syndicate in Loudcloud's March 9, 2001 IPO. Loudcloud's stock was quoted on the
13 NASDAQ National Market under the ticker symbol LDCL until August 2002, when the
14 company changed its name to Opsware. Since the name change, the company's
15 stock has been quoted under the ticker symbol OPSW.
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- 18 24. TWP's relationship with Loudcloud began in February 2000 when the then chairman
19 and founder of Loudcloud contacted a TWP partner and senior research analyst
20 ("Loudcloud Senior Analyst"). Thereafter, the Loudcloud Senior Analyst and TWP
21 investment bankers met with Loudcloud to discuss potential financing for the
22 company.
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- 26 25. Prior to Loudcloud's IPO, the Loudcloud Senior Analyst mentioned Loudcloud in a
27 periodic industry report dated June 19, 2000. TWP also invited Loudcloud to attend
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1 its annual "Growth Forum" held in late June 2000. Thereafter, TWP solicited
2 underwriting work for Loudcloud's IPO in a presentation made on or about August 16,
3 2000. During the presentation, TWP touted its ability to provide "aftermarket
4 support," which included, in part, research coverage. The presentation provided case
5 studies on two companies that TWP had covered. The case studies highlighted the
6 amount and types of research, i.e., reports specific to the particular company,
7 periodic industry reports, and white papers that TWP provided for these two
8 companies, suggesting that TWP would do the same for Loudcloud. TWP also
9 highlighted the fact that it mentioned Loudcloud in a June 19, 2000 TWP report and
10 that Loudcloud had attended TWP's annual "Growth Forum" conference.
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14 26. The presentation included biographical and professional information about the two
15 TWP analysts who would be covering the company along with a list of companies
16 that they previously and currently covered. The presentation also touted TWP's
17 ability to communicate Loudcloud's "story" through, in part, TWP's "all-star ranked
18 research coverage." In a November 4, 2000, e-mail, the Loudcloud Senior Analyst
19 boasted that "Loudcloud is a deal that I won, I lead [sic] this pitch with [a TWP vice
20 president and junior research analyst]."
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24 27. On September 22, 2000 and February 9, 2001, TWP investment bankers and the
25 research analysts who worked on the Loudcloud IPO sent a memorandum to TWP's
26 Commitment Committee in support of TWP's participating in the Loudcloud IPO.
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1 28. On April 3, 2001, after TWP participated as an underwriter in the Loudcloud IPO, the
2 Loudcloud Senior Analyst e-mailed senior Loudcloud management stating:
3 "Gentlemen: this e-mail is to inform you that, as promised during the Thomas Weisel
4 Partners [sic] IPO pitch, I initiated written research coverage on Loudcloud this
5 morning – 25 days (to the hour) following the pricing of the offering on March 8th. Our
6 First Call note we will be posted shortly and our +20 page written research report,
7 that you reviewed this weekend and we discussed changes to yesterday, is being
8 sent to editorial and printing today." TWP also provided research coverage of
9 Loudcloud in other periodic industry reports or notes during 2001. TWP's Loudcloud
10 research reports, notes, and other industry publications discussing Loudcloud were
11 distributed through Public Services.

14 Gemplus

15 29. Another example of analyst participation in the pitch process is with respect to
16 Gemplus International, S.A. ("Gemplus"), a French company that provides "smart"
17 cards for wireless communications and transactions. TWP participated as a member
18 of the underwriting syndicate in Gemplus' U.S. IPO of American Depositary Shares
19 on December 8, 2000, and Gemplus' stock has since been quoted on the NASDAQ
20 National Market under the ticker symbol GEMP.

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24 30. TWP solicited underwriting work for the Gemplus U.S. IPO in a presentation to
25 company management on or about September 15, 2000. In the presentation, TWP
26 touted its ability to provide research coverage from "multiple angles" through reports
27 specifically related to the company as well as regularly published industry reports
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1 highlighting several companies. TWP also presented a case study of research
2 coverage it provided on another company, Verisign, Inc. On a chart depicting
3 Verisign's trade volume and increasing stock price, TWP highlighted dates upon
4 which TWP published recommendations of Verisign's stock. In one instance, the
5 presentation states, "12/21/99 TWP upgrades [Verisign] to a strong buy. Stock jumps
6 \$35 in one day," suggesting that TWP could provide the same sort of coverage and
7 results for Gemplus.
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11 31. A TWP partner and senior research analyst ("Gemplus Senior Analyst") had
12 previously developed a relationship with Gemplus management and was largely
13 responsible for TWP being selected as an underwriter for Gemplus' U.S. IPO. A
14 TWP vice-president and junior research analyst ("Gemplus Junior Analyst") assisted
15 the Gemplus Senior Analyst in his research of the company. According to the lead
16 TWP investment banker on the Gemplus U.S. IPO, Gemplus, in selecting TWP as an
17 underwriter, wanted "to make sure that [the Gemplus Senior Analyst] will be the lead
18 [analyst], with [the Gemplus Junior Analyst] on the deal. . . ."
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22 32. A venture capital firm with whom TWP had a business relationship also played a role
23 in Gemplus awarding TWP with an underwriting slot on the IPO. The venture capital
24 firm, Gemplus' controlling shareholder, guaranteed TWP a "minimum total fee of \$3
25 million for being a member of the Gemplus underwriting syndicate."
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1 33. On November 21, 2000, the TWP investment bankers, as well as the TWP research
2 analysts who worked on the Gemplus U.S. IPO, sent a memorandum to TWP's
3 Commitment Committee in support of TWP's participation in the Gemplus U.S. IPO.
4 According to this memorandum, the TWP analysts prepared financial models after
5 spending "extensive time with [the lead underwriter] and the company."
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8 34. On January 3, 2001, the TWP analysts visited the venture capital firm's San
9 Francisco office and discussed Gemplus, among several items, with two senior
10 partners of the venture capital firm. On January 4, 2001, the Gemplus Junior Analyst
11 e-mailed one of the partners of the venture capital firm, writing that "in keeping w/our
12 commitment to support the [Gemplus] stock, we are initiating research coverage
13 tomorrow, Fri., the first day possible after the 25-day quiet period expires in the
14 States." The Gemplus Junior Analyst also advised the venture capital firm partner
15 that "we have not yet had an opportunity to speak w/ [the new Gemplus CFO]
16 regarding any substantive/necessary changes to our model and full report." The
17 Gemplus Junior Analyst continued, "as such, we will publish an abbreviated note in
18 the interim, and would like to set up a conference call as soon as possible to discuss
19 any necessary changes so we can get the full report to our institutional client base."
20 The Gemplus Junior Analyst attached a copy of TWP's European version of the
21 Gemplus report to the e-mail and advised that "we will use as the starting point for
22 any new revision."
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1 35. On January 5, 2001, the Gemplus Senior Analyst e-mailed Gemplus' senior
2 management, as well as partners at the venture capital firm, stating: "Gentlemen: As
3 promised, I am pleased to send you this research note that was transmitted to First
4 Call this morning. This is our launch of research coverage on Gemplus, 25 days to
5 the hour, following the successful company public offering in the U.S. and Europe."
6 The Gemplus Senior Analyst continued in the e-mail, "we await your final comments
7 on our lengthy written research report that we have already sent you. Following our
8 joint discussions – we will follow through with the publication of the report. Again, it
9 has been a pleasure working with both the Gemplus and [venture capital]
10 management teams . . . We look forward to working together in 2001 and beyond." In
11 addition to soliciting comments of his research report from Gemplus management,
12 the Gemplus Senior Analyst solicited comments on the report from the controlling
13 shareholder of Gemplus. The Gemplus Senior Analyst published the full research
14 report on January 16, 2001.
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19 36. The Gemplus Senior Analyst provided research coverage of the company until
20 August 1, 2001. TWP's Gemplus research reports, notes, and other industry
21 publications were distributed through Public Services.
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**Research Department Made Coverage Decisions Based Upon Investment
Banking Concerns**

37. TWP's equity research department also made coverage decisions based, in part, on investment banking concerns. TWP prepared research "Drop Lists" that detailed the institutional commissions generated by the covered companies, the trading profit and loss, the names of the institutional investors and venture capitalist firms who held stock in the covered companies, and the banker feedback concerning whether to drop research coverage. Explaining a January 2001 version of the research Drop List, TWP's Chief Operating Officer of Investment Banking ("COO of Investment Banking"), e-mailed TWP's Head of Corporate Finance, and TWP's Director of Sales: I've made an attempt to get banking's feedback on potential banking business for each of these clients. We should also assess the potential impact on affiliated venture capitalists for those companies we decide to drop. . . I will be in touch to schedule a meeting for us to review the list in more detail and provide specific recommendations to [TWP's Chief Operating Officer] and [TWP's then acting Director of Research].

38. With regards to the banker feedback section of a February 2001 Drop List, reasons to "keep" research coverage included: "recent IPO," "M&A engagement," "good banking client," "M&A prospects," "multiple fee opportunity," and "potential M&A" Reasons to "hold" coverage included: "waiting for M&A fee (Jan 01)," and a named investor is "considering investing."

Stamps.com

39. An example of TWP's decision to drop or effectively to cease research coverage is the case of Stamps.com, Inc., a company that provided Internet postage services. Stamps.com conducted its IPO on June 24, 1999, and its stock has since been quoted on the NASDAQ National Market under the ticker symbol STMP. TWP participated as a member of the underwriting syndicate for the IPO.
40. On July 21, 1999, a TWP partner and senior research analyst ("Stamps.com Senior Analyst") initiated research coverage on Stamps.com with a "Buy" rating. TWP continued its research coverage of Stamps.com in reports it issued during 1999 and 2000. TWP also issued other periodic industry reports or notes mentioning Stamps.com during the relevant period. TWP's Stamps.com research reports, notes, and other industry publications discussing Stamps.com were distributed through Public Services.
41. The Stamps.com Senior Analyst maintained a "Buy" rating on Stamps.com until October 29, 1999, the last date on which he issued a research note on the company. On December 6, 1999, Stamps.com conducted a secondary offering. TWP was again a member of the underwriting syndicate for that offering.
42. In late 1999, TWP transitioned research coverage on the company from the Stamps.com Senior Analyst to a TWP vice president and junior research analyst ("Stamps.com Junior Analyst"). On January 29, 2000, the Stamps.com Junior

Analyst initiated research coverage with a "Buy" rating. On February 7, 2000, Stamps.com acquired another company and TWP provided Stamps.com with a fairness opinion regarding the acquisition.

43. The Stamps.com Junior Analyst maintained his "Buy" rating on Stamps.com until September 19, 2000 when he ceased publishing any additional research on the company. During the time period that he actively covered the company, the Stamps.com Junior Analyst maintained a "Buy" rating on Stamps.com despite the steady decline of the company's stock price from \$35.12 on January 27, 2000 to \$6.00 on September 19, 2000.
44. On November 27, 2000, the Stamps.com Junior Analyst e-mailed a TWP partner and Director of East Coast Research (in December 2000, this TWP partner became the acting Director of Research) explaining reasons why TWP should "kill," or discontinue, research coverage on Stamps.com. The Stamps.com Junior Analyst explained that: (1) Stamps.com was not "core" to the companies he was then covering; (2) there was "no more [investment] banking [business] to be done"; and (3) that there was "limited commission opportunity" as a market maker in Stamps.com's stock.
45. With regard to the lack of additional investment banking business, the Stamps.com Junior Analyst explained in more detail that: (1) TWP had been paid for the Stamps.com IPO, a follow-on offering, and a fairness opinion for a merger; (2)

1 Stamps.com had retained another investment banking firm to review the company's
2 strategic options; and (3) contrary to his earlier belief, a Stamps.com wholly-owned
3 subsidiary was unlikely to do a 2001 IPO.
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6 46. The Stamps.com Junior Analyst also explained the "sensitivities" associated with
7 dropping coverage. Those "sensitivities" included the fact that certain venture
8 capitalists, who were also TWP clients, had investments in Stamps.com. He advised
9 his supervisor that one venture capital firm "is a big [institutional] client and has
10 owned all the way down." Despite these "sensitivities," the Stamps.com Junior
11 Analyst pointed out to his supervisor that the venture capitalists "hired [another
12 investment banking firm] not us for potential M&A trade" and that there would be
13 "limited downside on [Stamps.com] stock from cutting research sponsorship."
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17 47. On January 8, 2001, the acting Director of Research, responded to the Stamps.com
18 Junior Analyst's November 27, 2000 e-mail with a number of edits and instructions to
19 send the e-mail to other senior managers of TWP's Sales and Trading Department,
20 Private Client Department, and Corporate Finance for their "reactions" to the
21 Stamps.com Junior Analyst's recommendation. Senior TWP management did not
22 object to dropping research coverage on Stamps.com and, in response to the
23 Stamps.com Junior Analyst's e-mail, the head of TWP Corporate Finance advised
24 the Stamps.com Junior Analyst to "drop" coverage on Stamps.com. However, on
25 January 12, 2001, TWP's COO of Investment Banking e-mailed the Stamps.com
26 Junior Analyst advising him that the head of the firm wanted him to "hold on to this
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1 stock for now" but that he "shouldn't feel that [he had] to do any work on it, just don't
2 drop it." The COO of Investment Banking further explained that TWP had a number
3 of venture capitalist backed stocks in the Stamps.com sector and that the head of the
4 firm "wants to manage this relationship carefully."
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7 48. The Stamps.com Junior Analyst did not publish any research on Stamps.com after its
8 last note on September 19, 2000. However, TWP never issued a note that it was
9 dropping coverage on Stamps.com.
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11 **Verisign**

- 12 49. Verisign, Inc. is a provider of digital trust services that enable businesses and
13 consumers to engage in commerce and communications. Verisign's IPO was on
14 January 29, 1998, and its stock has since been quoted on the NASDAQ National
15 Market under the ticker symbol VRSN. TWP did not participate in the underwriting of
16 this IPO.
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19 50. On June 25, 1999, TWP, through a research report issued by a TWP partner and
20 senior research analyst ("Verisign Senior Analyst"), initiated research coverage on
21 Verisign with a "Buy" rating. TWP continued research coverage of Verisign in reports
22 issued during the relevant period. TWP also featured Verisign in other periodic
23 industry reports or notes during the relevant period. TWP's Verisign research
24 reports, notes, and other industry publications discussing Verisign were distributed
25 through Public Services.
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1 51. In November 1999, TWP transitioned coverage of Verisign from the Verisign Senior
2 Analyst to a TWP vice president and junior research analyst ("Verisign Junior
3 Analyst"). The Verisign Junior Analyst maintained the "Buy" rating on Verisign until
4 December 21, 1999, when he upgraded his rating to a "Strong Buy." He maintained
5 that rating until January 25, 2001, when he downgraded Verisign's rating to a "Buy."
6 After the Verisign Junior Analyst advised Verisign's CEO that he was downgrading
7 the stock, the Verisign CEO called a TWP partner and demanded that TWP fire the
8 Verisign Junior Analyst. On February 2, 2001, TWP terminated the Verisign Junior
9 Analyst, along with a number of other research analysts, and transitioned Verisign
10 coverage.
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14 52. On April 16, 2001, the Verisign Senior Analyst re-initiated research coverage on
15 Verisign with a "Buy" rating. The Verisign Senior Analyst also e-mailed a number of
16 TWP investment bankers a copy of his research report and advised them that he had
17 "spoken at length with [Verisign's CFO and CEO] re: possible TWP banking at
18 Verisign, they will make available last week of May for us to pull together a
19 presentation they have asked me to co-ordinate. Please advise who wants to be
20 involved." On April 27, 2001, the Verisign Senior Analyst upgraded Verisign's rating
21 to a "Strong Buy."
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25 53. The Verisign Senior Analyst and TWP investment bankers prepared a pitch
26 presentation for Verisign management. On May 29, 2001, the Verisign Senior
27 Analyst and TWP investment bankers drove to Verisign's offices in Silicon Valley and
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made an investment banking pitch to the company's management. The pitch book prepared for the May 29, 2001 presentation touted TWP's research role as a "strong supporter of Verisign's story," and the Verisign Senior Analyst's recent upgrade of the stock to a "Strong Buy."

54. The Verisign Senior Analyst continuously covered Verisign from April 16, 2001 to September 10, 2001, despite his participation in TWP's pitch to Verisign for investment banking business. TWP transitioned research coverage of Verisign on October 26, 2001, from the Verisign Senior Analyst to another analyst who then initiated coverage with a "Buy" rating.

D. TWP ISSUED RESEARCH REPORTS ON THREE COMPANIES THAT WERE NOT BASED ON PRINCIPLES OF FAIR DEALING AND GOOD FAITH AND DID NOT PROVIDE A SOUND BASIS FOR EVALUATING FACTS, CONTAINED EXAGGERATED OR UNWARRANTED CLAIMS ABOUT THESE ISSUERS, AND/OR CONTAINED OPINIONS FOR WHICH THERE WAS NO REASONABLE BASIS

InfoSpace

55. InfoSpace, Inc., is a diversified technology and services company. TWP was an underwriter for InfoSpace's March 30, 1999 secondary offering. On April 1, 1999, a TWP partner initiated coverage of InfoSpace with a "Buy" rating. TWP maintained its "Buy" rating on InfoSpace through December 7, 1999. Shortly thereafter, TWP transitioned coverage of InfoSpace from a TWP partner to a vice president and junior

1 research analyst ("InfoSpace Research Analyst"). InfoSpace's stock trades on the
2 NASDAQ National Market under the ticker symbol INSP.
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5 56. In January 2000, the InfoSpace Research Analyst initiated his coverage on
6 InfoSpace with a "Buy" rating, which he maintained until he lowered it to "Market
7 Perform" in July 2001. During that time, the price of InfoSpace's stock declined from
8 \$43 to about \$2. Despite his "Buy" rating, as early as January 2001 and continuing
9 over the next four months, the InfoSpace Research Analyst had serious doubts about
10 InfoSpace's business prospects and was privately telling others that the stock was
11 not a buy and to "get out of" InfoSpace.
12

13
14 57. In January 2001, the TWP InfoSpace Research Analyst submitted a draft InfoSpace
15 research note to a TWP supervisory analyst for review prior to publication. In the
16 draft report, the InfoSpace Research Analyst recommended that investors await
17 certain information from the company "before considering purchasing shares of
18 INSP." The supervisory analyst edited the report suggesting that the InfoSpace
19 Research Analyst remove the language above, and advised him that "if the stock is
20 BUY rated, we cannot tell investors not to buy the stock." Rather than adjust the buy
21 rating, the InfoSpace Research Analyst issued his report on January 11, 2001 with
22 the edits the supervisory analyst suggested.
23
24

25
26 58. The InfoSpace Research Analyst privately e-mailed others explaining that he did not
27 think the stock should be rated a "Buy." For example, on January 22, 2001, the
28

1 InfoSpace Research Analyst explained to a TWP salesperson: "I can't frickin believe
2 that I still have [InfoSpace] as a buy rating. I need a drink." In an e-mail later that
3 same day to a TWP research associate who was working with him, the InfoSpace
4 Research Analyst explained:

5
6 while I don't want to piss off [InfoSpace's CEO] I also don't care
7 that much . . . I think INSP is dead \$ and that upside catalysts are
8 limited. I don't talk on the stock and the buy rating only gives me
access to mgmt for info on wireless.

9 59. Within minutes of sending this e-mail to his assistant, the InfoSpace Research
10 Analyst e-mailed TWP's Head of the Product Management Group, TWP's Director of
11 Sales and TWP's acting Director of the Research Department about changes in
12 InfoSpace's management which indicated to the InfoSpace Research Analyst that the
13 company's ability to execute a wireless plan was "probably diminishing." The
14 InfoSpace Research Analyst further explained that the:

15
16 heart of the new mgmt team is out and we are left with the same
17 mgmt team that was in place back in April. I did not have
18 confidence in that previous mgmt team's ability to take the company
19 to the next level and I remain skeptical on the company's near term
20 outlook now. I may be calling the bottom and [InfoSpace's CEO]
will be pissed, but this stock is not a buy.

21 60. Later that same day, the InfoSpace Research Analyst, responding to some of the
22 acting Director of Research's questions, stated:

23
24 I do not think INSP falls much, but I cannot comprehend
25 recommending people buy this . . . would like to swap out of INSP
26 and into [Openwave Systems ("Openwave"), an InfoSpace
27 competitor]. . . I have been verbally saying to get out of INSP . . .
28 basically can sit here with a buy and never speak on stock or I can
downgrade. I do not want to piss of [InfoSpace's CEO], but I
should have downgraded stock long ago.

1 61. On January 23, 2001, the InfoSpace Research Analyst sent a draft copy of a new
2 research note with a "Buy" rating on InfoSpace to a supervisory analyst for review.
3 The draft research note stated, in part: "we recommend that investors remain
4 cautious on the stock" The supervisory analyst e-mailed the InfoSpace
5 Research Analyst, stating: "we cannot tell investors to 'remain cautious' on a BUY-
6 rated stock." The InfoSpace Research Analyst edited the note and deleted the
7 "remain cautious" language as the supervisory analyst suggested and TWP
8 published the note that day.
9
10
11

12 62. Later in the morning on January 23, the InfoSpace Research Analyst sent e-mails to
13 a number of people explaining that he should have downgraded the stock. He first e-
14 mailed his assistant, explaining: "I saw that some people downgraded INSP this
15 morning . . . I want the stock to increase before we downgrade." The InfoSpace
16 Research Analyst next explained to TWP's head of sales: "I never did the
17 downgrade. I missed it weeks ago. Wanted to speak with mgmt first . . . also I'm
18 hoping shares rebound over the next few weeks. . . then I'll downgrade." The
19 InfoSpace Research Analyst also e-mailed a TWP investment banker: "Yea. I should
20 have downgraded INSP last night. I want to have a call with [InfoSpace's CEO] and
21 tell him I'm going to do it before I do it."
22
23
24

25 63. From January 29 through February 13, 2001, the InfoSpace Research Analyst
26 continued privately to tell the sales and trading departments, and investors with
27 whom he spoke, that he recommended swapping out of InfoSpace and into
28

1 Openwave. For example, on January 29, the InfoSpace Research Analyst, in an e-
2 mail intended for TWP internal use only, wrote to the sales and trading departments
3 that InfoSpace's "2001 guidance will be negative. Swap into Openwave." That same
4 morning, the InfoSpace Research Analyst also e-mailed TWP's head of product
5 management, asking him to mention during the morning call with the sales and
6 trading departments that investors should swap out of InfoSpace and into Openwave.
7

8
9 64. While privately telling TWP sales and trading personnel and investors with whom he
10 spoke to swap out of InfoSpace, the InfoSpace Research Analyst nonetheless
11 published yet another company research note on January 30, 2001 with a "Buy"
12 rating. Later that morning, the TWP InfoSpace Research Analyst responded as
13 follows to an e-mail from an individual at another broker-dealer that noted another
14 broker-dealer was cutting its earnings per share estimates on InfoSpace: "We did the
15 same. Although I still think that '01 numbers are complete bull-shit. . . ."
16
17

18
19 65. On February 5, 7, and 11, 2001, the TWP InfoSpace Research Analyst again sent e-
20 mails to TWP's sales and trading departments, stating in part: (1) "Swap from INSP
21 to [Openwave]"; (2) "We believe accounts should wait on the sidelines until the
22 company gives greater clarity on its revised strategic plan"; and (3) "we are still
23 adopting a wait and see attitude until we gain greater confidence that the company
24 will successfully manage the transition from its consumer services business."
25
26 Despite his private comments to the contrary, on February 13, 2001, the InfoSpace
27 Research Analyst issued a research note in which he reiterated his "Buy" rating.
28

1
2 66. From February 13, 2001 to April 25, 2001, the InfoSpace Research Analyst did not
3 issue any new research reports or notes on InfoSpace, and the stock price declined
4 more than 20%, from \$5.00 to \$3.91. On April 25, the InfoSpace Research Analyst
5 e-mailed the Deputy Director of Research (on April 16, 2001, a new Director of
6 Research began working at TWP and the acting Director of Research became the
7 Deputy Director of Research), explaining:

8
9 At some point we need to discuss this stock. They report today
10 post-close. I have never bothered to downgrade the stock, but
11 made comments to swap into [an InfoSpace competitor]. I think
12 that any [revenue opportunity] for TWP (i.e. banking) has fallen
13 apart so actions can be taken.

14 67. The Deputy Director of Research responded to the InfoSpace Research Analyst and
15 asked in part, "What are our commissions in INSP? What is it's [sic]current market
16 cap?" The Deputy Director of Research also told the InfoSpace Research Analyst
17 that he would run the potential drop in coverage by other TWP department directors
18 to "build a consensus course of action." The InfoSpace Research Analyst responded
19 to the Deputy Director of Research explaining that TWP's commissions were:

20
21 \$145k to-date (\$140 in jan/feb) when we told people to swap into
22 [the InfoSpace competitor]. We have very strong relationships [a
23 TWP partner and senior research analyst and InfoSpace's CEO]. . .
24 but I do not get the sense that the bankers care anymore.
25 Maintaining coverage in [short term] is not a big problem since I've
26 got the quarterly report 'automated' . . . thanks.

27 68. The Deputy Director of Research e-mailed a number of TWP department directors
28 and other research analysts to ascertain if they had any problem with dropping

1 research coverage or whether other analysts wanted to pick up coverage of
2 InfoSpace. The other TWP department directors did not object to dropping coverage
3 and none of the other TWP research analysts wanted to pick up coverage of
4 InfoSpace. On April 26, 2001, the InfoSpace Research Analyst issued another
5 research note on InfoSpace and reiterated his "Buy" rating on the company.
6

7
8 69. On May 2, 2001, the Deputy Director of Research e-mailed the InfoSpace Research
9 Analyst as follows:

10
11 Engineer whatever your desired outcome is on this one. If you
12 want to drop [InfoSpace], I will support you. No interest in it from
13 the media guys or consumer guys [i.e., TWP research analysts],
14 and [the head of trading] doesn't care. If you like the insight and
15 get some trading commissions and it helps your franchise, then
16 keep it. If it is a distraction that doesn't help your impact with
17 accounts then . . . Thanks.

18
19 70. On May 30, 2001, the InfoSpace Research Analyst, apparently responding to an e-
20 mail from another one of his assistants, stated: "I agree re: INSP. I hate having it as
21 a buy, but nothing I can do now" The InfoSpace Research Analyst maintained
22 his "Buy" rating on InfoSpace until July 25, 2001 when he finally downgraded the
23 stock to a "Market Perform" rating. He published his last research note on InfoSpace
24 on November 26, 2001, again with a "Market Perform" rating. In this report, the
25 InfoSpace Research Analyst also explained that he was discontinuing his research
26 coverage of InfoSpace.

27 Level 3 Communications

28 71. Level 3 Communications, Inc. is a telecommunications and information services

1 company that operates an advanced international facilities-based communications
2 network based on Internet Protocol technology. Level 3's stock trades on the
3 NASDAQ National Market under the ticker symbol LVLT.
4

5
6 72. TWP commenced its research coverage of Level 3 with a "Buy" rating and a year-end
7 \$100 price target on September 15, 2000, when the stock opened at \$78.25 per
8 share. TWP maintained its "Buy" rating on Level 3 even as the stock price declined
9 from \$78.25 per share to \$5.97 per share on June 18, 2001. Not until June 19, 2001
10 did TWP downgrade its rating of Level 3 to "Market Perform." TWP continued to
11 cover Level 3 until October 26, 2001, when it discontinued coverage. TWP re-
12 initiated coverage on Level 3 on January 20, 2004.
13

14
15 73. On May 21, 2001, when TWP rated Level 3 a "Buy" and its shares were trading at
16 \$13.06, another firm covering Level 3 lowered its rating from "Strong Buy" to "Market
17 Underperform." TWP's Deputy Director of Research, who was aware of the
18 downgrade, e-mailed the TWP vice president and research analyst covering the
19 stock ("Level 3 Analyst") about the "Buy" rating stating: "doesn't sound like a buy." In
20 a series of e-mails that day, the Level 3 Analyst responded to the inquiries
21 concerning the "Buy" rating and explained that he wanted to delay the downgrade to
22 ensure that Level 3 executives attended a conference that TWP sponsored:
23

- 24
25 • It isn't [a buy]. I'm waiting until after the conference [TWP's
26 annual "Growth Forum" conference], and before the next quarter to
27 downgrade. If we do it now it won't look as aggressive as if we do it
28 in front of their quarter. So we'll probably downgrade around the
beginning of July. The stock isn't going to make a significant move

1 until then. We expect it will probably trade in the mid-teens. We're
2 expecting the stock to move down into single digits after another
3 "average" quarter, and possible downward revision in estimates.

4 • There is also the issue of wanting to ensure that they come
5 to our conference and speak on our panel. If I downgrade right
6 now they will assuredly pull from our conference and we can't
7 afford that.

8 • We have always maintained the stock is a speculative buy.
9 We've been very clear that there were issues on this name, but that
10 as long as you knew what you were getting into it was a good stock
11 to trade. Just recently it has become very clear that the company
[is] settling into a single market company, and the issues haven't
gone away. In my commentary to the clients I am positioning it as
a name that they can still trade, but one that will probably see a
downward trend before a significant upward movement.

12 74. On May 31, 2001, in response to an e-mail from TWP's Director of Communications
13 Services Research advising that he had just had a conversation with a firm that was
14 "very negative on level3," the Level 3 Analyst stated:

15 we have been negative on the name as well. I've basically been
16 telling our clients that it is a great short. They're on the verge of
17 laying off almost 1,000 people (not yet announced yet). They are
18 still trading at a premium valuation to Williams and 360. I haven't
19 lowered the rating mainly because I need them to show up at our
20 conference. If I lower to a [Market Perform] I guarantee they won't
21 attend. We'll lower the rating after the conference, in front of the
22 quarter.

23 75. Despite the Level 3 Analyst's view of the company expressed in the May 21 and 31,
24 2001, e-mails, he maintained his "Buy" rating in the stock for almost another month,
25 until he finally downgraded the stock to "Market Perform" on June 19, 2001.

26 Sprint FON Group

27 76. Sprint FON Group is comprised of Sprint's wireline telecommunications operations,
28

1 including long distance, local phone, product distribution and directory publishing.
2 Sprint FON Group's stock trades on the NYSE under the ticker symbol FON.
3

4
5 77. On June 13, 2001, before initiation of coverage and the announcement of a rating,
6 the TWP vice president and junior research analyst assigned to cover the stock
7 ("FON Research Analyst") attended a meeting at FON's headquarters with members
8 of the FON management. Following this meeting, the FON Research Analyst e-
9 mailed the Director of Communications Services Research, stating:

10
11 this is a market perform company. No 2 ways about it. However,
12 I'm aware of the conflict [sic] that is arising due to a better than
13 average probability of our getting on an FON convert deal. Need to
14 speak to you about the rating. We could go out with a Buy based
15 on our belief that they are going to accomplish a couple of things,
16 and then explain that failure to do so will cause us to downgrade.
17 We're protected in that case. Let's talk tomorrow.

18
19 78. On June 19, 2001, TWP initiated coverage of FON with a "Buy" rating. In that report,
20 TWP did not disclose that one reason that it had made a "Buy" recommendation was
21 the fact that TWP hoped to obtain investment banking business from Sprint.
22

23 **E. TWP RECEIVED PAYMENT IN CONSIDERATION OF ITS PROVIDING**
24 **RESEARCH COVERAGE OF HOTJOBS.COM**
25

26 79. Between 1999 and 2001, TWP received payment from the proceeds of at least one
27 underwriting to compensate the firm for services that included publishing research on
28 the issuer. Despite having an obligation to do so, TWP failed to disclose in research
reports or elsewhere that it received the payment, in part, as compensation for
issuing the reports.

1
2 80. In August 1999, Hotjobs.com, Ltd., conducted an IPO for which another broker-dealer
3 acted as lead underwriter. TWP was not included in the syndicate for the Hotjobs
4 IPO. Although not a member of the original syndicate, TWP did act as an underwriter
5 for a Hotjobs.com secondary offering that took place on November 10, 1999.
6

7
8 81. In connection with the Hotjobs IPO, the lead underwriter for the Hotjobs IPO made a
9 payment of \$40,000 to TWP by a check dated November 4, 1999. The lead
10 underwriter's records concerning the IPO indicate that the lead underwriter made the
11 payment in settlement of a "guaranteed" selling concession to be paid in either stock
12 or cash. The lead underwriter's records indicate that it guaranteed the selling
13 concession to TWP in consideration of the fact that "[a TWP research partner] will
14 pick up research." TWP did not disclose or cause to be disclosed the fact of this
15 payment.
16
17

18
19 82. On September 9, 1999, TWP, through a research report issued by the TWP research
20 partner, initiated research coverage on Hotjobs.com with a "Buy" rating. TWP
21 continued its research coverage concerning Hotjobs.com in reports it issued during
22 1999 and 2000. TWP upgraded Hotjobs.com to a "Strong Buy" on February 16,
23 2000.
24

25 83. TWP also provided research coverage to Hotjobs.com in other publications during
26 1999 and 2000. TWP's Hotjobs.com research reports, notes, and other publications
27 were distributed through Public Services.
28

1 84. TWP did not disclose that it had received consideration, or the amount thereof, for its
2 research or other publications concerning Hotjobs.com in any of its publications
3 concerning Hotjobs.com.
4

5
6 F. TWP FAILED TO ENSURE PUBLIC DISCLOSURE OF PAYMENTS IT MADE
7 FROM THE PROCEEDS OF UNDERWRITINGS TO BROKERAGE FIRMS TO
8 ISSUE RESEARCH COVERAGE REGARDING ITS INVESTMENT BANKING
9 CLIENTS
10

11 85. During the relevant period, TWP paid portions of certain underwriting proceeds to
12 other brokerage firms to initiate or continue research coverage on issuers for whom
13 TWP served as lead or co-manager. TWP knew that these payments were, in part,
14 for research. TWP did not take steps to ensure that the brokerage firms it paid to
15 initiate or continue coverage of its investment banking clients disclosed that they had
16 been paid to issue such research. Further, TWP did not disclose or cause to be
17 disclosed in offering documents or elsewhere the fact of or reason for such
18 payments.
19

20 Arena Pharmaceuticals
21

22 86. In June 2001, TWP acted as lead underwriter for a secondary offering of securities by
23 Arena Pharmaceuticals, Inc. In connection with that underwriting, TWP made
24 payments totaling \$325,000 to three broker-dealers in consideration of their providing
25 research coverage of Arena Pharmaceuticals stock. The check stub for each of the
26 payments described the payment as "Research Fees for Arena Pharmac." TWP did
27 not ensure these payments were disclosed to the public by the broker-dealers in their
28 published reports on Arena Pharmaceuticals.

1 **Proxicom**

2
3 87. In October 1999, TWP acted as lead underwriter for a secondary offering of
4 securities by Proxicom, Inc. In connection with that underwriting, TWP made
5 payments totaling \$50,000 to two firms in consideration of those firms providing
6 research coverage concerning Proxicom securities. The check stub for each of those
7 payments indicated that the check was in consideration of "Research Proxicom."
8 TWP did not ensure these payments were disclosed to the public by the broker-
9 dealers in their published reports on Proxicom. TWP included another \$25,000 for
10 payment to a third firm in its expense budget for the Proxicom underwriting syndicate.
11 However, TWP did not pay that firm. TWP's accounting records indicate the payment
12 was "held" until that firm "start[ed] research coverage."

13
14 **G. TWP FAILED TO SUPERVISE ADEQUATELY ITS RESEARCH ANALYSTS AND**
15 **INVESTMENT BANKING PROFESSIONALS**

16
17 88. During the relevant period, TWP's management failed to monitor adequately the
18 activities of the firm's research and investment banking professionals to ensure
19 compliance with NASD and NYSE rules and the federal securities laws. Among
20 other things, this failure to supervise gave rise to and perpetuated the above-
21 described violative conduct.
22

23
24 **III. CONCLUSIONS OF LAW**

25
26 89. The Alabama Securities Commission has jurisdiction over this matter pursuant to the
27 Alabama Securities Act.
28

1 90. The Alabama Securities Commission finds the following relief appropriate and in the
2 public interest.

3
4 91. The Alabama Securities Commission finds that the above conduct is in violation of
5 830-x-3-.13 (1) & (3) Alabama Administrative Code and 8-6-3(j)(7) Code of Alabama 1975.

6
7 92. TWP violated 830-x-3-.13 (1) and (3) by failing to establish and maintain adequate
8 policies, systems and procedures for supervision and control of the Research and
9 Investment Banking Departments reasonably designed to detect and prevent the foregoing
10 investment banking influences and manage the conflicts of interest to assure compliance
11 with applicable securities laws and regulations.

12
13 93. TWP, during the period from July 1999 through 2001, engaged in acts or practices
14 that created or maintained inappropriate influences by Investment Banking over Research
15 Analysts, imposed conflicts of interest on its Research Analysts, and failed to manage these
16 conflicts in an adequate or appropriate manner in violation of just and equitable principles of
17 trade. The NASD and NYSE have both established rules governing ethical practices and
18 conduct. The standards established by the NASD and the NYSE are recognized by the
19 Alabama Securities Commission as minimum standards of ethical conduct for the purposes
20 of § 8-6-3(j)7, relating generally to dishonest or unethical practices in the securities
21 business. During the relevant period, TWP engaged in acts and practices violative of:

22
23 (a) NASD Conduct Rule 2110 requiring members to observe high standards of
24 commercial honor and just and equitable principles of trade;

25 (b) NYSE Rule 401 requiring that broker dealers shall at all times adhere to the
26 principles of good business practice and the conduct of his or its business affairs;

1 (c) NYSE Rule 476(a)6 prohibiting the engagement in practices of conduct
2 inconsistent with just and equitable principles of trade;

3 (d) NASD Conduct Rule 2210(d)1 and 2210(d)2 prohibiting exaggerated or
4 unwarranted claims in public communications and requiring a reasonable basis for all
5 recommendations made in advertisements and sales literature; and

6 (e) NYSE Rule 472 prohibiting the issuance of communications that contain
7 exaggerated or unwarranted claims or opinions that lack a reasonable basis.

8 By engaging in the acts and practices described above that created and/or
9 maintained inappropriate influence by Investment Banking over Research Analysts and
10 therefore imposed conflicts of interest on its Research Analysts, TWP failed to manage
11 these conflicts in an adequate or appropriate manner, in violation of § 8-6-3(j)(7).

12 94. Nothing in this Order shall be construed as an admission or finding of fraud.
13

14 IV. ORDER

15 On the basis of the Findings of Fact, Conclusions of Law, and TWP's consent to the
16 entry of this Order, for the sole purpose of settling this matter, prior to a hearing and without
17 admitting or denying any of the Findings of Fact or Conclusions of Law.

18 IT IS HEREBY ORDERED:

- 19
20
21 1. This Order concludes the Investigations by the Alabama Securities Commission and
22 any other action that the Alabama Securities Commission could commence under the
23 Alabama Securities Act on behalf of the state of Alabama as it relates to TWP, or its
24 affiliates, or the current or former directors, officers or employees of TWP or its
25 affiliates arising from or relating to the subject of the Investigations, provided
26 however, that excluded from and not covered by this paragraph 1 are any claims by
27 the Alabama Securities Commission arising from or relating to enforcement of the
28 "Order" provisions contained herein.

1
2 TWP will CEASE AND DESIST from engaging in acts which violate 830-x-3-.13 (1) &
3 (3) and 8-6-3(j)7, and will comply with 830-x-3-.13 (1) & (3) and 8-6-3(j)(7), and will
4 also comply with the undertakings of Addendum A, incorporated herein by reference.
5

6 2. If payment is not made by TWP or if TWP defaults in any of its obligations set forth in
7 this Order, the Alabama Securities Commission may vacate this Order, at its sole
8 discretion, upon 10 days notice to TWP and without opportunity for administrative
9 hearing and TWP agrees that any statute of limitations applicable to the subject of
10 the Investigation and any claims arising from or relating thereto are tolled from and
11 after the date of this Order.
12

13 3. This Order is not intended by the Alabama Securities Commission to subject any
14 Covered Person to any disqualifications under the laws of any state, the District of
15 Columbia or Puerto Rico (collectively, "State"), including, without limitation, any
16 disqualifications from relying upon the State registration exemptions or State safe
17 harbor provisions. "Covered Person" means TWP, or any of its officers, directors,
18 affiliates, current or former employees, or other persons that would otherwise be
19 disqualified as a result of the Orders (as defined below).
20

21 4. The SEC Final Judgment, the NYSE Stipulation and Consent, the NASD Letter of
22 Acceptance, Waiver and Consent, this Order and the order of any other State in
23 related proceedings against TWP (collectively, the "Orders") shall not disqualify any
24 Covered Person from any business that they otherwise are qualified, licensed or
25 permitted to perform under applicable law of the state of Alabama and any
26 disqualifications from relying upon this state's registration exemptions or safe harbor
27 provisions that arise from the Orders are hereby waived.
28

1
2 5. For any person or entity not a party to this Order, this Order does not limit or create any
3 private rights or remedies against TWP including, without limitation, the use of any e-
4 mails or other documents of TWP or of others regarding research practices or limit or
5 create liability of TWP or limit or create defenses of TWP to any claims.
6

7 7. Nothing herein shall preclude the state of Alabama, its departments, agencies, boards,
8 commissions, authorities, political subdivisions and corporations, other than the
9 Alabama Securities Commission and only to the extent set forth in paragraph 1 above,
10 (collectively, "State Entities") and the officers, agents or employees of State Entities
11 from asserting any claims, causes of action, or applications for compensatory, nominal
12 and/or punitive damages, administrative, civil, criminal, or injunctive relief against TWP
13 in connection with certain research and/or banking practices at TWP.
14

15
16 8. TWP agrees not to take any action or to make or permit to be made any public
17 statement denying, directly or indirectly, any finding in this Order or creating the
18 impression that this Order is without factual basis. Nothing in this paragraph affects
19 TWP's: (i) testimonial obligations, or (ii) right to take factual or legal positions in
20 defense of litigation or in defense of other legal proceedings in which the Alabama
21 Securities Commission is not a party.
22

23 9. This Order shall be binding upon TWP and its successors and assigns. Further, with
24 respect to all conduct subject to Paragraph 2 above and all future obligations,
25 responsibilities, undertakings, commitments, limitations, restrictions, events, and
26 conditions, the terms "TWP" and "TWP's" as used herein shall include TWP's
27 successors and assigns (which, for these purposes, shall include a successor or
28 assign to TWP's investment banking and research operations, and in the case of an

1 affiliate of TWP, a successor or assign to TWP's investment banking or research
2 operations).

3 4 5 **V. MONETARY SANCTIONS**

6
7 IT IS FURTHER ORDERED, that:

8
9 As a result of the Findings of Fact and Conclusions of Law contained in this Order,
10 TWP shall pay a total amount of \$12,500,000. This total amount shall be paid as specified
11 in the SEC Final Judgment as follows:

12
13 1. Five million dollars (\$5,000,000) to the states (50 states, plus the District of Columbia
14 and Puerto Rico) (TWP's offer to the state securities regulators hereinafter shall be
15 called the "state settlement offer"). Upon execution of this Order, TWP shall pay the
16 sum of \$68,531 of this amount to the Alabama Securities Commission as follows:

17
18 a) That in accordance with Section 8-6-19 (j) (1), Code of Alabama 1975, TWP
19 shall pay to the State of Alabama an administrative penalty in the total sum of
20 \$50,000, said funds to be tendered in certified funds contemporaneously with the
21 entry of this Order;

22
23 b) That in accordance with Section 8-6-19 (k) (1), Code of Alabama 1975, TWP
24 shall pay to the Alabama Securities Commission, as partial reimbursement for the
25 Commission's cost for investigating this matter, the sum of \$18,531, said funds to be
26 tendered in certified funds contemporaneously with the entry of this Order;

1 The total amount to be paid by TWP to state securities regulators pursuant to the
2 state settlement offer may be reduced due to the decision of any state securities
3 regulator not to accept the state settlement offer. In the event another state
4 securities regulator determines not to accept TWP's state settlement offer, the total
5 amount of the Alabama payment shall not be affected, and shall remain at \$68,531;

6 2. Five million dollars (\$5,000,000) as disgorgement of commissions and other monies
7 as specified in the SEC Final Judgment;

8 3. Two million dollars five hundred thousand dollars (\$2,500,000) to be used for the
9 procurement of independent research, as described in the SEC Final Judgment;

10
11 TWP agrees that it shall not seek or accept, directly or indirectly, reimbursement or
12 indemnification, including, but not limited to payment made pursuant to any insurance
13 policy, with regard to all penalty amounts that TWP shall pay pursuant to this Order or
14 Section II of the SEC Final Judgment, regardless of whether such penalty amounts or any
15 part thereof are added to the Distribution Fund Account referred to in the SEC Final
16 Judgment or otherwise used for the benefit of investors.

17 TWP further agrees that it shall not claim, assert, or apply for a tax deduction or tax
18 credit with regard to any state, federal or local tax for any penalty amounts that TWP shall
19 pay pursuant to this Order or Section II of the SEC Final Judgment, regardless of whether
20 such penalty amounts or any part thereof are added to the Distribution Fund Account
21 referred to in the SEC Final Judgment or otherwise used for the benefit of investors. TWP
22 understands and acknowledges that these provisions are not intended to imply that the
23 Alabama Securities Commission would agree that any other amounts TWP shall pay
24 pursuant to the SEC Final Judgment may be reimbursed or indemnified (whether pursuant
25 to an insurance policy or otherwise) under applicable law or may be the basis for any tax
26 deduction or tax credit with regard to any state, federal or local tax.

27 28 VI. GENERAL PROVISIONS


1
2 This Order and any dispute related thereto shall be construed and enforced in
3 accordance with, and governed by, the laws of the State of Alabama without regard to any
4 choice of law principles. The parties represent, warrant and agree that they have received
5 independent legal advice from their attorneys with respect to the advisability of executing
6 this Order.

7 TWP enters into this Consent Order voluntarily and represents that no threats, offers,
8 promises, or inducements of any kind have been made by the Alabama Securities
9 Commission or any member, officer, employee, agent, or representative of the Alabama
10 Securities Commission to induce TWP to enter into this Consent Order.

11 This Consent Order shall become final upon entry.

12
13 Dated this 5 day of MARCH, 2005

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15 By:

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17 Joseph P. Borg
18 Director
19 Alabama Securities Commission
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**CONSENT TO ENTRY OF
ADMINISTRATIVE ORDER BY TWP**

1. TWP hereby acknowledges that it has been served with a copy of this Administrative Order, has read the foregoing Order, is aware of its right to a hearing and appeal in this matter, and has waived the same.
2. TWP admits the jurisdiction of the Alabama Securities Commission, neither admits nor denies the Findings of Fact and Conclusions of Law contained in this Order; and consents to entry of this Order by the Alabama Securities Commission as settlement of the issues contained in this Order.
3. TWP states that no promise of any kind or nature whatsoever was made to it to induce it to enter into this Order and that it has entered into this Order voluntarily.
4. TWP understands that the Alabama Securities Commission may make such public announcement concerning this agreement and the subject matter thereof as the Alabama Securities Commission may deem appropriate.

David Baylor represents that he is Chief Administrative Officer of TWP and that, as such, has been authorized by TWP to enter into this Order for and on behalf of TWP.

Dated this 1st day of March, 2005

Thomas Weisel Partners, LLC

By: David Baylor

Title: Chief Administrative officer.

SUBSCRIBED AND SWORN TO before me this 1st day of March, 2005.

Fredericka S. Drum

Notary Public

My Commission expires: 9/30/07

